



The Company states that it has accrued surplus funds in its surcharge accounts and requests that it be allowed to use the surplus funds to retire the approximate \$63,000 balance of Loan 1 early. This would also eliminate Surcharge 1. The Company alleges this money is available because it has borrowed less money than anticipated on Loan 2 and the interest rate on it was reduced from 7% to 5.65%. The Company contends this would leave a balance of more than \$40,000 to help satisfy Loan 2 amortization costs, phosphate purchases and power expenses. By retiring Loan 1 (and Surcharge 1) early, the Company asserts it will save on interest charges and the Company's customers will receive reductions in their bills. The Company requests the Commission approve its Application quickly.

#### **STAFF COMMENTS**

In its written comments Staff stated that it reviewed the Company's Application, audited the surcharge accounts, and worked closely with Capitol Water over the years to insure that both the borrowed funds and the collected surcharges have been properly applied and accounted for.

Staff found the Company had accumulated a surplus in its accounts as represented. However, Staff believed the Company undercharged its surcharge accounts. Staff recommended that two adjustments be made to the Company's surcharge accounts. First, Capitol Water's surcharge accounts did not include amounts paid to Idaho Power resulting from PCA rate charges over the past several years. Staff believed the Company's surcharge account balance should be adjusted downward by \$4,126 to recognize the changes in PCA rates. Staff also recommended that Capitol Water adjust its charges to the surcharge account each May when Idaho Power's PCA rate adjustment becomes effective. Second, the Company undercharged its surcharge account balance by \$11,597 for income taxes paid for the years 2001 and 2002. Staff also recommended that Capitol Water annually calculate the effect of the surcharges on its income tax liability and charge the incremental income tax expense to the surcharge account in a timely manner. Based on these adjustments Staff believes the Company's surcharge account balance should actually be \$91,140 as of September 30, 2003.

Staff supported Capitol Water's request to pay off the balance of Loan 1 with the adjusted surplus balance and commended the Company for bringing this Application to the Commission. Staff also recommended that the Commission authorize the Company to eliminate Surcharge 1 that is associated with Loan 1.

Staff was also concerned that the remaining surcharge, Surcharge 2, would not provide enough cash flow for the Company to service Loan 2 and pay for the phosphates and Idaho Power's annual PCA rate charges. *See* Order No. 29035. Shortages in the Surcharge 2 account could cause the Company to file a general rate case to recover these costs. Thus, Staff recommended that the Commission authorize the Company to adjust the remaining surcharge upward by \$0.45 per month for flat rate customers and raise the surcharge for metered customers by 3.5 percentage points. Staff believed these adjustments would provide sufficient revenue to cover the ongoing PCA and phosphate costs. The purpose of including the Idaho Power PCA charges and phosphate costs in the calculation is to make Capitol Water whole, neither benefiting nor penalizing the Company. Thus, Staff did not anticipate an increase in profits to the Company as a result of the proposed increase and believed any excess funds collected should be used to retire Loan 2 early.

Staff contended the elimination of Loan 1 and Surcharge 1 early in combination with the small upward adjustment to Surcharge 2 would allow the Company's flat rate customers to realize a net reduction in surcharges from \$6.37 per month to \$3.55 per month, or a surcharge reduction of 44.27%. The surcharges that metered customers pay will change from 48.8% per month to 27.1%, or a 44.47% rate reduction. The elimination of Loan 1 at an interest rate of 9% would also benefit the Company's customers who are paying its carrying costs through Surcharge 1. Based on the recommended modifications to Capitol Water's Application, Staff believed the overall reductions were just and reasonable to the Company and its customers.

Finally, Staff reviewed the Company's improvement projects currently approved in Order No. 29306. The Company plans to install a back up generator at Well No. 4 at an estimated cost of \$75,000 and begin an aquifer recharge project to provide water quality improvements at an estimated cost of \$20,000. The Company has sufficient borrowing capacity in the 2002 loan to complete these activities. The interest rate of this loan is between 5.5 and 6% as represented by the Company. Therefore customers will see a reduction in overall bills and the Company will be able to complete its project needs previously approved by the Commission.

#### **COMMISSION FINDINGS AND DECISION**

Capitol Water is a water utility that is engaged in the sale of and distribution of water in the State of Idaho. *See Idaho Code* §§ 61-125 and 61-129. In addition, the Company wishes

to change its rates for the service it provides to its customers. *See generally Idaho Code § 61-503.* Accordingly, the Commission has jurisdiction over this Application.

Capitol Water alleged it has not borrowed the entire amount of Loan 2 that the Commission authorized. *See Order No. 29035.* The Company also stated the interest rate on Loan 2 has decreased from 7% to 5.65%. The Company contends these factors have allowed it to accrue over \$100,000 in its surcharge account. Staff verified these facts, but contends the Company did not take into account the impacts Idaho Power's PCA rate charges and the Company's annual income taxes had on its accounts. The Commission finds that surplus funds have accrued in Capitol Water's surcharge account due to the factors above. In addition, the Commission finds the Company's actual surcharge balance is less than asserted by it due to the annual impacts of Idaho Power's PCA rate charges and income taxes that were not previously included. Because of these adjustments the Commission finds it is necessary to direct Capitol Water to take action to keep its surcharge account current. Accordingly, the Commission orders the Company to: 1) adjust its charges to its surcharge account each May when Idaho Power Company's PCA rate adjustment becomes effective, and 2) calculate the annual effect of the Company's surcharges on its income tax liability and charge the incremental income tax expense to the surcharge account in a timely manner.

The Commission finds the Company's request to retire Loan 1 early is sound. Authorizing the Company to use the surplus funds to retire Loan 1 early will provide benefits to the Company's customers by reducing their rates for service.

Based upon Staff's analysis, after retiring Loan 1 and eliminating Surcharge 1 the Commission finds that Capitol Water's Surcharge 2 will not provide the cash flow requirements for the Company to service Loan 2 and pay for phosphates and Idaho Power's annual PCA rate charges. This is because Surcharge 2 was established to recover only the loan amortization costs and incremental income taxes associated with the surcharge. It was not meant to provide cash flow to pay for Idaho Power's PCA rate charges and phosphates necessary for the system as did Surcharge 1. Accordingly, the Commission finds that it is reasonable and necessary to adjust Surcharge 2 upward in order to ensure the Company has sufficient cash flow. The Commission directs Capitol Water to adjust Surcharge 2 upward by \$0.45 per month for flat rate customers and by 3.5 percentage points for metered customers. The purpose of including these items in the calculation is to make Capitol Water whole, neither benefiting nor penalizing the Company. In

the event that surplus funds again accrue in the Company's surcharge account, it shall use the funds to retire Loan 2 early.

Elimination of Loan 1 and Surcharge 1 early in combination with the adjustment to Surcharge 2 allows the Company's flat rate customers to realize a reduction in surcharges from \$6.37 per month to \$3.55 per month or a surcharge reduction of 44.27%. The surcharges that metered customers pay will change from 48.8% per month to 27.1% or a 44.47% reduction. The Commission finds that it is in the public interest to approve Capitol Water Corporation's Application with the modifications suggested by Staff.

### **ORDER**

IT IS HEREBY ORDERED that Capitol Water Corporation's Application is approved as modified above. The Commission authorizes the Company to use surplus funds in its surcharge account to retire Loan 1 early.

IT IS FURTHER ORDERED that Surcharge 1 shall be eliminated contemporaneously with the retirement of Loan 1.

IT IS FURTHER ORDERED that Capitol Water Corporation shall increase its Surcharge 2 by \$0.45 per month for flat-rate customers and 3.5 percentage points for metered customers in order for the Company to cover loan amortization costs of Loan 2, incremental income taxes, annual Idaho Power PCA rate charges and the annual purchase cost of phosphates for water treatment.

IT IS FURTHER ORDERED that Capitol Water shall: 1) adjust the expense it charges against the surcharge account balance each May when Idaho Power Company's PCA rate adjustment becomes effective; and 2) calculate the annual effect of the Company's surcharges on its income tax liability and charge the incremental income tax expense to the surcharge account in a timely manner.

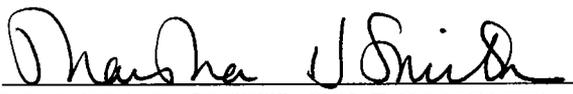
IT IS FURTHER ORDERED that Capitol Water Corporation shall file conforming tariffs within twenty-one (21) days of this Order.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. CAP-W-03-1 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in

this Case No. CAP-W-03-1. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See Idaho Code § 61-626.

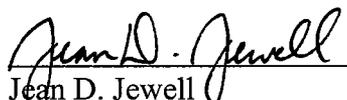
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 19<sup>th</sup> day of December 2003.

  
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PAUL KJELLANDER, PRESIDENT

  
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MARSHA H. SMITH, COMMISSIONER

  
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DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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